

# **IndigoVision Group plc**

Directors' report and consolidated  
financial statements

Registered number SC208809

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## Highlights

### Financial Highlights

- Total revenues increased by 77% to £13.4m
- Product revenues increased by 92% to £13.3m
- Gross margins improved to 66%
- Operating profit increased by 81% to £0.65m
- Profit before taxation doubled from £0.32m to £0.67m
- Strong start to current year

### Operating Highlights

- Product revenue growth in all markets
  - Americas up 164% to £3.6m
  - EMEA up 66% to £7.3m
  - APAC up 107% to £2.4m
- Licensing £0.1m compared with £0.6m last year
- Management structure and team extended, direct sales force expanded and strengthened
- Product range broadened
  - Next generation H.264 compression launched (9000 range)
  - IP Camera range expanded
  - New entry level products introduced
- Major installations and project wins in all geographies including:
  - 1300 cameras in Vancouver rail networks, Canada
  - 1100 cameras at two casinos in Tucson, Arizona, USA
  - 600 cameras at Doha International Airport in Qatar
  - 340 cameras for Macau police service, China
  - 200 cameras at Berlin suburban rail network, Germany

Oliver Vellacott, Chief Executive, said:

“I am pleased to report continued strong growth across all territories and in multiple sectors of the market, especially rail and casinos. During the year, as part of our planning for future growth, we made significant investments in management, with a number of critical senior appointments, and in the sales force and distribution infrastructure.

The task ahead is to transform that investment into sustainably higher levels of profitability and build on IndigoVision’s excellent positioning as an enterprise IP video provider. We have had a strong start to the current year with sales and order intake well ahead of last year. The board is therefore confident that this year will see further growth and rapid progress towards these goals”.

**Shareholder calendar**

13 September 2007	Preliminary announcement
27 September 2007	Annual Report and Financial Statements circulated
8 November 2007	Annual General Meeting
12 March 2008	2008 Interim results announced
25 September 2008	2008 Full Year results announced

## Chairman's statement

The year to 31 July 2007 was one of substantial growth for IndigoVision, both in product revenues and profits which approximately doubled, and in the management, sales and distribution infrastructure necessary to support future growth. Excellent progress was made in all key markets, the product range was broadened, and the rapid pace of development of the acceptance of IP video as the technology of choice for end users continued.

### Results

Turnover for the year to 31 July 2007 increased by 77% to £13.4m (2006—£7.6m), with product revenues almost doubling for the third successive year, increasing 92% to £13.3m. As expected, licensing income reduced from £0.6m to £0.1m. Growth continued to be strong in all markets, with revenues from the Americas up 164% to £3.6m, from Europe, Middle East and Africa up 66% to £7.3m and from Asia Pacific up 38% to £2.5m. In Asia Pacific, excluding licensing income, product revenues grew 107% to £2.4m.

Gross margin improved slightly to 65.6%, a good outcome given the reduction in licensing revenues. These gross margins enable IndigoVision to provide the market leading products, sales support and infrastructure, research and development, and customer service which our customers rightly expect. The overall contribution from gross margin grew by 86% to £8.8m.

As indicated previously, the year to 31 July 2007 saw a substantial increase in costs. A planned investment in developing the scale and quality of the sales force resulted in selling and distribution costs increasing by 130% to £4.32m; a broadening and strengthening of the management team and support infrastructure resulted in administrative costs increasing by 80% to £2.32m; and increased expenditure on product development resulted in research and development costs rising 24% to £1.49m. Overall, operating costs grew 86% to £8.13m, on a headcount which including retained agents grew to 99 from 66 at last year end. Three regional hubs (Singapore, USA, UK) are now operational to locate stocking, service and support closer to our partners. As a result of these increased resources, IndigoVision is better placed to service its global customer base, and to continue to take advantage of the rapid growth rates evident in its chosen markets.

Operating profits grew 81% to £0.65m, and profit before taxation by 108% to £0.67m. The profit and loss account also benefited from a credit of £2.0m in respect of deferred tax, being a partial recognition of the substantial tax losses available to IndigoVision for offset against future profits. The board considered it appropriate not to recognise the full amount until a more sustained record of profitability becomes evident.

During the year there was a net cash outflow from operating activities of £1.1m, reflecting a net increased investment of approximately £2.1m in stock, debtors and creditors, concomitant with increased levels of trade. This was offset by some £1.0m of net cash flow from trading profits after adjusting for non-cash items. At the year end, despite the increased investment in working capital, IndigoVision had cash of £0.2m and our bank overdraft facilities were unused.

### The Business

IndigoVision is a leading originator of complete IP video and alarm management solutions. Its products are widely chosen for applications in airports, city centers, ports, mines, road and rail systems, education, banking, casinos, prisons, government and the military. IndigoVision's enterprise-class systems improve organisations' operational efficiency, enhance public safety and enable timely emergency response. IndigoVision has local sales, support and distribution presence across the world, and partners with over 200 authorised system integrators and installers in 40 countries to provide local system design, installation and service to end users. IndigoVision's products have been employed in thousands of installations globally, including two Olympic Games, the 2006 Soccer World Cup, 7 major rail networks, 2 of the world's top 5 banks, 28 airports and 5 casinos.

## **Chairman's statement** *(continued)*

In July 2007 IndigoVision was awarded its largest ever US contract, supplying an integrated 1100 camera IP Video solution for two casinos in Tucson, Arizona. IndigoVision also recently won a prestigious contract for TransLink in Vancouver, Canada to upgrade the 880 camera CCTV system on SkyTrain, the world's largest automated light rapid transit system - reflecting IndigoVision's continued success with infrastructure projects in the transport sector.

Key to the future success of IndigoVision are continual product improvement and development and delivering the very best customer service. IndigoVision's hardware and software are designed and developed in-house. During 2007 we increased our commitment to research and development, and launched a completely new range of products based on the higher compression H.264 standard, as well as broadening other existing parts of the product range including IP cameras and new entry level solutions. We also invested heavily in customer service staff and systems with a view to meeting and exceeding the standards of responsiveness and professionalism expected by our customers and partners, on whom our future growth depends.

The development of IP video technology has opened up a completely new area of CCTV applications. These are enterprise wide solutions employing greater than 1000 cameras, 200 monitors, 50 operators, 100 recorders with one petabyte of storage, which are continuously displaying and recording high-quality video across IP networks spanning entire plants, organisations and even countries. IndigoVision is fortunate to have a lead in the real world deployment of such systems and is very well placed to take advantage of the substantial market growth that is developing for such systems.

### **Sales and Distribution**

The total number of staff and retained agents employed in customer facing areas, namely sales, marketing, sales support, customer service and distribution increased 49% from 37 at last year end to 55 at 31 July 2007. This step change in the scale of IndigoVision's market infrastructure was necessary both to enable last year's doubling of product revenues and to support the future development of IndigoVision's business in markets that are expected to grow rapidly in the foreseeable future.

### **Management and Staff**

The board has deliberately strengthened the management team during the year, at significant cost, in order to give IndigoVision a much broader team capable of overseeing the further development of the group's business. A group sales director, group human resources director, chief marketing officer and head of technical support were recruited from outwith IndigoVision, all experienced and highly qualified individuals. Internal candidates were appointed to the new post of operations director and to regional sales management positions each of whom is well experienced in IndigoVision's operations and products. The group now has a full service management team committed to the growth of IndigoVision's business.

In a year which has seen a doubling of the scale of IndigoVision and a great deal of internal change, the management and staff throughout the group have continued to be highly dedicated, committed and professional and I would like to thank them on behalf of the group's shareholders and customers.

### **Current Trading and Outlook**

The year to 31 July 2007 saw an approximate doubling of product revenues for the third successive year, and despite a number of larger volume contracts, this was achieved without sacrificing margins. In order to maximise on the opportunity available from rapidly developing markets, the board deliberately chose to re-invest the fruits of that growth in increased overheads to support expansion. The group's management is focussed on continuing the growth of IndigoVision's business and in turning the substantial investment made in infrastructure into sustainably higher levels of profitability.

## Chairman's statement *(continued)*

The current year has started well. Both sales and order intake in the last six weeks are well ahead of the corresponding period last year and the pipeline of potential new business remains high. Whilst precise rates of growth in rapidly developing markets are inherently difficult to predict, this strong start gives the board confidence that the current year will show a good increase in sales. We are not, at this stage, seeing any marked effect on customers from the current turmoil in financial markets, and we are firmly of the view that should this ultimately flow through to capital spending, it is likely to affect the rate of market growth, rather than growth itself.

The investment in increased resource undertaken last year, coupled with the positioning and quality of IndigoVision products, places the company in an excellent competitive position as its markets continue to expand. We currently expect the overall cost base to grow less rapidly this year than last, although growth will still be substantial, both as a result of the full year effect of decisions made last year, and of further overhead spending to support increased sales. We again expect increased investment in working capital, particularly in higher debtors (consistent with an expectation of higher sales) and in higher stocks of the faster selling finished goods (reflecting both higher expected sales and targeted larger production batch sizes aimed at achieving improved manufacturing efficiency). In addition we expect to increase research and development expenditure to ensure that IndigoVision's market leading position is maintained.

IndigoVision is enviably positioned with excellent products and well developed infrastructure in a nascent but rapidly growing market. Goals for the current year are maintaining competitive advantage; bedding in last year's rapid increases in management and selling overhead; growing sales and the installed base of product; and importantly, delivering sustainably higher levels of operating margins and cash flow from trading necessary to finance expected rates of growth. There is every reason to believe that the current year will see good progress towards these goals.



**Hamish Grossart**  
*Chairman*  
12 September 2007

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 July 2007.

### Principal activities and business review

The principal activity of the Group and its subsidiaries continues to be the design, development, manufacture and sale of software and hardware products. These products provide CCTV and alarm integrators with a complete enterprise video and alarm management system that allows full motion real time video to be transmitted worldwide, in real-time, with digital quality and security, using local or wide area networks, wireless links or the Internet.

A review of the activities of the Group for the year is given in the Chairman's statement on pages 3 to 5.

The principal risks and uncertainties affecting the business include the following:

Foreign currency exchange: the company monitors short and medium term exchange rates and the move to US dollar priced product purchasing matches the major currency of sales.

Environmental risks: the company places considerable emphasis upon environmental compliance in its business and not only seeks to ensure ongoing compliance with relevant legislation, but also strives to ensure that environmental best practice is incorporated into its key processes. The company is fully RoHS compliant.

The effect of legislation and other regulatory activities: the company monitors forthcoming and current legislation as it affects the company regularly.

Pension funding risk: the company operates a defined contribution pension scheme only and has no additional pension funding risk.

New product, project and technology risk: the group develops new technologies and introduces new products for production by best practice NPI methodologies. All new technologies and products involve business risk both in terms of possible abortive expenditure, risk to reputation and potential customer claims or onerous contracts. Such risks may materially impact on the company. All appropriate measures are taken to protect the company's intellectual property rights and to minimise the risk of infringement of third party rights.

Research and development risk: the company continues to invest in research and development to maintain technological advantage in IP-video.

Competitive risk: The company operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the company. The geographical diversity of operations reduces the possible effect of action by any single competitor. The company invests directly in research and development in order to sustain competitive advantage, and also works continually to ensure that its cost base is competitive.

### Proposed dividend

The directors do not recommend the payment of a dividend.

## **Directors' report** *(continued)*

### **Policy and practice on payment of creditors**

It is the Company's and the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group does not follow any code or standard on payment practice, however it seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. As at 31 July 2007 the number of days of annual purchases represented by the year-end creditors for the Group amounted to 32 days (2006—29 days).

### **Cash and treasury**

The net cash balance at year end was £ 0.18m (2006—£1.45m).

Cash balances are held mainly in sterling and US dollars.

Cash reserves in excess of current requirements are placed on a variety of term deposits. Term deposits are placed with banks from the list of the Group's approved institutions.

The Group reviews its treasury and foreign currency policies on a regular basis.

The Group has a multi option facility of £2m secured by a bond and floating charge. The facility includes a US\$1m standby letter of credit and overdraft.

In addition the board was granted authority at the last annual general meeting to allot and issue, for example by way of a share placing, up to 692,300 ordinary shares of 1p each, equivalent to approximately 9.99% of the company's current issued share capital.

### **Key areas of strategic development and performance of the business include:**

**Sales and marketing:** new and repeat business is being won continually; new markets have been developed in line with the company's strategy; key customer relationships are monitored on a regular basis.

**Manufacturing:** new products continue to be developed for both existing and development markets; production efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.

**Health and Safety:** the company continues to seek ways of ensuring that a safe and healthy working environment is progressively improved.

**Environment:** new methods of achieving greater environmental effectiveness are continually being examined.

Key financial performance indicators include the monitoring and management of profitability and working capital.

Key non-financial performance indicators include the monitoring of our employees' health and safety in addition to the group's environmental impact and energy consumption.

## Directors' report (continued)

	2007	2006	Measure
<b>Financial</b>			
Return on capital	12%	12%	Profit before tax/total assets less current liabilities
Current ratio	3.8	2.8	Current assets: current liabilities
Stock turnover	7	3	Cost of goods sold/stock
Creditors days	32	29	Trade creditors/cost of sales x 365

### Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £NIL.

### Directors and directors' interests

The directors who held office during the year were as follows:

Hamish Grossart	Chairman
Oliver Vellacott	Chief Executive Officer
Marcus Kneen	Chief Financial Officer
Barry Keepence	Chief Technology Officer
Robert Cathery	Non Executive Director

The directors to retire by rotation are two of Marcus Kneen, Barry Keepence and Robert Cathery. Marcus Kneen and Robert Cathery who, being eligible, offer themselves for re-election.

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company according to the register of directors' interests:

	Ordinary shares	
	Interest at end of year	Interest at start of year
Hamish Grossart	201,000	310,633
Oliver Vellacott	1,688,415	1,688,415
Marcus Kneen	143,900	73,900
Barry Keepence	39,350	39,350
Robert Cathery	136,500	136,500

## Directors' report *(continued)*

According to the register of directors' interests, the following rights to subscribe for shares in the company were granted to the directors, or exercised by them, during the financial year:

	Options at start of year	Awarded during year	Options exercised	Weighted average exercise price, £	Options at end of year	Weighted average option price per share, £	Date range in which options can be exercised
Oliver Vellacott	236,500	10,000	-	-	246,500	£1.34	09/07 – 05/17
Barry Keepence	161,500	10,000	-	-	171,500	£1.02	09/07 – 05/17
Marcus Kneen	128,000	10,000	(70,000)	£0.46	68,000	£1.87	11/07 – 05/17

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Substantial interests

At the date of this report, the Company had been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	Shares	%
Oliver Vellacott	1,626,415	23
The Bank of New York (Nominees) Limited	949,518	13
Brewin Nominees Limited	383,973	5
Vidacos Nominees limited	339,925	5
L R Nominees Limited	350,340	5
Barclayshare Nominees Limited	260,602	4
Pershing Keen Nominees Limited	229,773	3
Credit Suisse Securities (Europe) Limited	213,916	3

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**Marcus Kneen**  
Secretary

Edinburgh

12 September 2007

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

## Independent auditors' report to the members of IndigoVision Group plc

We have audited the group and parent company financial statements ("the financial statements") of IndigoVision Group plc for the year ended 31 July 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Practice) are set out in the Statement of Directors' Responsibilities on page 10.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 July 2007 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

12 September 2007

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

**Consolidated profit and loss account**  
*for the year ended 31 July 2007*

	<i>Note</i>	<b>2007</b> <b>£000</b>	2006 £000 (Restated – note 1)
<b>Group Turnover</b>	1,2	<b>13,385</b>	7,574
Cost of sales		<b>(4,610)</b>	(2,853)
<b>Gross profit</b>		<b>8,775</b>	4,721
Research and development expenditure		<b>(1,490)</b>	(1,197)
Selling and distribution costs		<b>(4,315)</b>	(1,879)
Other administrative costs		<b>(2,320)</b>	(1,286)
<b>Group operating profit</b>		<b>650</b>	359
Interest receivable and similar income	6	<b>21</b>	44
Interest payable and similar charges	7	-	(80)
<b>Profit on ordinary activities before taxation</b>	2-5	<b>671</b>	323
Tax on profit on ordinary activities	8	<b>2,066</b>	87
<b>Profit for the financial year</b>		<b>2,737</b>	410
<b>Profit per ordinary share</b>			
Basic profit per share	9	<b>39.1p</b>	5.9p
Diluted profit per share	9	<b>35.0p</b>	5.2p

Turnover and profit on ordinary activities before taxation for the current and previous year relate wholly to continuing activities.

**Consolidated balance sheet**  
**at 31 July 2007**

	Note	2007 £000	2007 £000	2006 £000	2006 £000
<b>Fixed assets</b>					
Tangible assets	10		385		240
<b>Current assets</b>					
Stocks	12	1,533		398	
Debtors due after less than one year	13	4,211		2,105	
Debtors due after more than one year – Deferred taxation	14	2,000		-	
Total debtors		6,211		2,105	
Cash at bank and in hand		179		1,454	
		7,923		3,957	
<b>Creditors:</b> amounts falling due within one year	15	(2,463)		(1,431)	
<b>Net current assets</b>			5,460		2,526
<b>Total assets less current liabilities</b>			5,845		2,766
<b>Provisions for liabilities and charges</b>	17		(150)		(90)
<b>Net assets</b>			5,695		2,676
<b>Capital and reserves</b>					
Called up share capital	18		71		69
Share premium account	20		24,045		23,974
Other reserve	20		8,562		8,562
Profit and loss account	20		(26,983)		(29,929)
<b>Shareholders' funds</b>			5,695		2,676

These financial statements were approved by the board of directors on 12 September 2007 and were signed on its behalf by:



**Oliver Vellacott**  
Director



**Marcus Kneen**  
Director

**Company balance sheet**  
**at 31 July 2007**

	Note	2007 £000	2007 £000	2006 £000	2006 £000
<b>Fixed assets</b>					(Restated – note 1)
Investments	11		568		359
<b>Current assets</b>					
Amounts owed by subsidiary undertaking	13	1,023		140	
Cash at bank and in hand		-		850	
<b>Net current assets</b>			1,023		990
<b>Net assets</b>			1,591		1,349
<b>Capital and reserves</b>					
Called up share capital	18		71		69
Share premium account	20		24,045		23,974
Profit and loss account	20		(22,525)		(22,694)
<b>Shareholders' funds</b>			1,591		1,349

These financial statements were approved by the board of directors on 12 September 2007 and were signed on its behalf by:



**Oliver Vellacott**  
Director



**Marcus Kneen**  
Director

**Consolidated cash flow statement**  
*for the year ended 31 July 2007*

	<i>Note</i>	<b>2007</b> <b>£000</b>	2006 £000
<b>Cash flow statement</b>			
Cash (outflow)/inflow from operating activities	23	<b>(1,094)</b>	334
Returns on investments and servicing of finance	24	<b>21</b>	44
Taxation		-	87
Capital expenditure	24	<b>(275)</b>	(144)
		<hr/>	<hr/>
Cash (outflow)/ inflow before financing		<b>(1,348)</b>	321
Financing	24	<b>73</b>	1
		<hr/>	<hr/>
<b>(Decrease)/increase in cash in the year</b>		<b>(1,275)</b>	322
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>(Decrease)/increase in cash in the year</b>	25	<b>(1,275)</b>	322
Cash outflow from debt repayment		-	-
		<hr/>	<hr/>
Change in net debt resulting from cash flows		<b>(1,275)</b>	322
		<hr/>	<hr/>
<b>Movement in net funds in the year</b>		<b>(1,275)</b>	322
<b>Net funds at the start of the year</b>		<b>1,454</b>	1,132
		<hr/>	<hr/>
<b>Net funds at the end of the year</b>	25	<b>179</b>	1,454
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated statement of total recognised gains and losses**  
*for the year ended 31 July 2007*

	<b>2007</b>	<b>Group</b>
	<b>£000</b>	2006 £000 (Restated – note 1)
<b>Profit for the financial year</b>	<b>2,737</b>	410
Exchange differences on the retranslation of net investments	(1)	-
	<hr/>	<hr/>
<b>Total recognised gains and losses relating to the financial year</b>	<b>2,736</b>	410
Prior year adjustment (as explained in note 1)	(116)	<hr/>
	<hr/>	<hr/>
<b>Total recognised gains since the last annual report</b>	<b>2,620</b>	<hr/> <hr/>

**Reconciliations of movements in shareholders' funds**  
*for the year ended 31 July 2007*

	<b>2007</b>	<b>Group</b>	<b>2007</b>	<b>Company</b>
	<b>£000</b>	2006 £000 Restated	<b>£000</b>	2006 £000 Restated
<b>Profit / (loss) for the financial year</b>	<b>2,737</b>	410	<b>(40)</b>	(19)
Share based payments	209	116	209	116
Increase in share capital	73	1	73	1
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net increase in shareholders' funds</b>	<b>3,019</b>	527	<b>242</b>	98
Opening shareholders' funds	<b>2,676</b>	2,149	<b>1,349</b>	1,251
<i>(Company: originally £1,233,000 restated for prior year adjustment of £116,000)</i>				
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>5,695</b>	2,676	<b>1,591</b>	1,349
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. FRS 20 "Share based payments" has been adopted in the year. As a result of the adoption of FRS 20, a share based charge of £209,000 (2006:£116,000) has been made to the Group profit for the financial year. There is a corresponding credit to the profit and loss reserves, and accordingly there is no effect on net assets at the end of any of the periods. The effect on the parent company has been to increase the investment in subsidiary by £209,000 (2006: £116,000) to reflect the capital contribution to the subsidiary. There is a corresponding credit to the profit and loss reserve therefore the overall effect was to increase the net assets at the end of the financial year by £209,000 (2006: £116,000).

#### **Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Details of the subsidiary companies are shown in note 11. In accordance with FRS 8, transactions or balances between Group entities that have been eliminated on consolidation are not reported.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 July 2007 using merger accounting.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

#### **Tangible fixed assets and depreciation**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings, tools and equipment – 33<sup>1</sup>/<sub>3</sub>% per annum.

#### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

#### **Leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### **Post retirement benefits**

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

## **Notes** *(continued)*

### **1 Accounting policies** *(continued)*

#### **Share based payments**

The group share option programmes allow eligible employees to acquire shares in the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

#### **Research and development expenditure**

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Provision is made where appropriate for obsolete, slow moving and defective stocks.

#### **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences except as otherwise required by FRS 19. A deferred tax asset is not recognised until the directors are satisfied that the company more likely than not will have sufficient and relevant profits to enable such tax losses to be utilised and recovered.

#### **Turnover**

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers together with licence and royalty income.

## Notes (continued)

### 2 Segmental information

The table below sets out information for each of the Group's geographic areas of operation. The Group has one class of business being the design, development, manufacture and sale of digitally networked video systems.

By origin	United Kingdom		USA		Total	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Turnover	13,385	7,574	-	-	13,385	7,574
Group operating profit	623	329	27	30	650	359
Net interest	21	(36)	-	-	21	(36)
Segment profit before taxation	644	293	27	30	671	323
Group profit before taxation					671	323
Net assets	5,639	2,651	56	25	5,695	2,676
Turnover by destination					2007 £000	2006 £000
Europe, Middle East & Africa					7,257	4,381
Asia					2,515	1,823
Americas					3,613	1,370
					13,385	7,574

**Notes** (continued)

**3 Profit on ordinary activities before taxation**

	<b>2007</b>	2006
	<b>£000</b>	£000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Group		
- Audit of these financial statements	<b>25</b>	16
- other services relating to taxation	<b>9</b>	14
Company		
- audit of financial statement of subsidiaries	<b>3</b>	2
Depreciation and other amounts written off owned tangible fixed assets	<b>130</b>	61
Hire of other assets payable under operating leases	<b>164</b>	185
	<u>          </u>	<u>          </u>

**4 Remuneration of directors**

	<b>2007</b>	2006
	<b>£000</b>	£000
Directors' emoluments	<b>373</b>	480
Company contributions to money purchase pension schemes	<b>18</b>	28
	<u>          </u>	<u>          </u>
	<b>391</b>	508
	<u>          </u>	<u>          </u>

The aggregate of emoluments of the highest paid director was £125,000 (2006: £178,000), and company pension contributions of £7,000 (2006: £17,000) were made to a money purchase scheme on his behalf.

	<b>Number of directors</b>	
	<b>2007</b>	2006
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<b>3</b>	3
	<u>          </u>	<u>          </u>
The number of directors who exercised share options was	<b>1</b>	-
	<u>          </u>	<u>          </u>

**Notes** *(continued)*

**5 Staff numbers and costs**

The average number of persons employed by the Group and Company (including directors) during the year, analysed by category, was as follows:

	<b>Number of employees</b>	
	<b>2007</b>	2006
Office and management	<b>43</b>	21
Engineering	<b>29</b>	26
	<u><b>72</b></u>	<u>47</u>

The aggregate payroll costs of these persons were as follows:

	<b>2007</b>	2006
	<b>£000</b>	£000
		Restated
Wages and salaries	<b>3,396</b>	2,079
Share based payments (see note 19)	<b>209</b>	116
Social security costs	<b>353</b>	196
Other pension costs	<b>100</b>	89
	<u><b>4,058</b></u>	<u>2,480</u>

**6 Interest receivable and similar income**

	<b>2007</b>	2006
	<b>£000</b>	£000
Bank interest receivable	<b>21</b>	44
	<u><b>21</b></u>	<u>44</u>

**7 Interest payable and similar charges**

	<b>2007</b>	2006
	<b>£000</b>	£000
On bank loans and overdrafts	-	-
Foreign exchange adjustment	-	(80)
	<u>-</u>	<u>(80)</u>

## Notes (continued)

### 8 Taxation

Analysis of charge in year:

	<b>2007</b> <b>£000</b>	2006 £000
<i>UK corporation tax</i>		
Research & Development tax credit	<b>66</b>	87
	<hr/>	<hr/>
<i>Deferred Tax</i>		
Charge in respect of current year	<b>(66)</b>	-
Exceptional credit in relation to prior year losses	<b>2,066</b>	-
	<hr/>	<hr/>
Net deferred tax credit	<b>2,000</b>	-
	<hr/>	<hr/>
Total tax credit for year	<b>2,066</b>	87
	<hr/>	<hr/>

#### Factors affecting the tax charge for the current year

The tax for the year is less (2006: less) than the standard rate of corporation tax in the UK (30%, 2006: 30%). The differences are explained below.

	<b>2007</b> <b>£000</b>	2006 £000 (Restated – note 1)
<i>Current corporation tax reconciliation</i>		
Profit on ordinary activities before tax	<b>671</b>	323
	<hr/>	<hr/>
Current corporation tax at 30 % (2006: 30%)	<b>201</b>	97
	<hr/>	<hr/>
<i>Effects of:</i>		
Tax relief in respect of share options exercised during the year	<b>(333)</b>	-
Expenses not deductible for tax purposes	<b>71</b>	110
Capital allowances for period in excess of depreciation	<b>22</b>	35
Research & Development tax credit	<b>(66)</b>	(87)
Tax losses carried forward/(utilised)	<b>39</b>	(242)
	<hr/>	<hr/>
Total current corporation tax credit (see above)	<b>(66)</b>	(87)
	<hr/>	<hr/>

#### Factors that affect the Group's tax charges

As stated in the accounting policies in note 1, a deferred tax asset is not recognised until the directors are satisfied that the group more likely than not will have sufficient and relevant profits to enable such tax losses to be utilised and recovered.

At 31 July 2007 tax losses available in the UK for offset against future taxable profits amounted to approximately £24.2 million (2006: £24.2 million); there is also an asset relating to depreciation in excess of capital allowances amounting to £0.5m (2006: £0.6m.) Using a corporation tax rate of 28% (the rate anticipated to apply in the future when such losses are utilised) this is equivalent to an asset of £6.9m. In the previous financial year the group moved into profitability following several years of losses generated during the start up phase of the business.

## Notes (continued)

### 8 Taxation (continued)

Following a second year of profitable trading, and having regard to the directors' assessment of the group's ability to generate suitable profits in the UK in the future, the directors believe it is now appropriate to recognise an element of this asset in the consolidated financial statements. Accordingly, a deferred tax asset of £2 million has been recognised at 31 July 2007, leaving a further amount of £4.8 million still to be recognised.

In addition, at 31 July 2007 tax losses in the United States available for offset against future profits in that country, amounted to approximately £1.6 million (2006 - £1.7million); using an income tax rate of 30% this is equivalent to an asset of £0.5million. However, due to continuing uncertainty over the timing of suitable profits in the United States and the fact that such losses will eventually time expire, no asset is currently being recognised in the consolidated financial statements.

In addition to the accumulated tax losses at 31 July 2007 referred to above, the group is also entitled to a tax deduction in the future equivalent to the difference between the market value of shares issued upon the exercise of outstanding share options, at the date such options are exercised, and the exercise price of the relevant options. For illustrative purposes only, and assuming all outstanding share options at 31 July 2007 are exercised with a share price at least equal to the company's actual share price at 31 July 2007, the future tax deduction available to the group would be £5.4 million (2006: £2.7 million); using a corporation tax rate of 28% this is equivalent to a potential asset of £1.5m (2006: £0.7 million). However, since this amount does not constitute a timing difference under FRS 19: Deferred Tax, no asset has been recognised at 31 July 2007 (2006: nil).

### 9 Profit per share

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for each period were calculated as follows:	<b>2007</b> no 000	2006 no 000
Issued ordinary shares at start of year	<b>6,928</b>	6,924
Effects of shares issued during the period from exercise of employee share options	<b>64</b>	4
	-----	-----
Weighted average number of ordinary shares at end of year		
– for basic earnings per share	<b>6,992</b>	6,928
Effect of share options in issue	<b>819</b>	878
	-----	-----
Weighted average number of ordinary shares at end of year		
– for diluted earnings per share	<b>7,811</b>	7,806
	=====	=====

## Notes (continued)

### Basic earnings per share

The calculation of basic earnings per share for the year ended 31 July 2007 was based on a profit attributable to ordinary shareholders of £2,737,000 (2006: £410,000) and a weighted average number of ordinary shares outstanding during the year ended 31 July 2007 of 6,992,309 (2006: 6,927,976), calculated as shown above.

### Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 July 2007 was based on a profit attributable to ordinary shareholders of £2,737,000 (2006: £410,000) and a weighted average number of ordinary shares outstanding during the year ended 31 July 2007 of 7,811,609 (2006: 7,806,176), calculated as shown above.

### Adjusted earnings per share

Adjusted earnings per share has been calculated excluding the deferred tax credit. Based on a profit of £737,000 the basic earnings per share is 10.5p and the diluted earnings per share is 9.4p.

## 10 Tangible fixed assets

Group	Fixtures, fittings, tools and equipment £000
<b>Cost</b>	
At beginning of year	897
Additions	275
Exchange Adjustment	(2)
Disposals	(22)
	<hr/>
At end of year	<b>1,148</b>
	<hr/> <hr/>
<b>Amortisation</b>	
At beginning of year	657
Charged in year	130
Exchange Adjustment	(2)
Disposals	(22)
	<hr/>
At end of year	<b>763</b>
	<hr/> <hr/>
<b>Net book value</b>	
<b>At 31 July 2007</b>	<b>385</b>
	<hr/> <hr/>
At 31 July 2006	240
	<hr/> <hr/>

## Notes (continued)

### 11 Fixed asset investments

<b>Company</b>	<b>Shares in subsidiary (Restated – note 1) £000</b>
<b>Cost less provision</b>	
At beginning of year (originally £243,000 before prior year adjustment of £116,000)	<b>359</b>
Increase in respect of share based payments for financial year	<b>209</b>
<b>At the end of year</b>	<b>568</b>

The company owns 100% of the ordinary shares of IndigoVision Limited, a company registered in Scotland. The principal activity of this company is the design, development, manufacture, and sale of software and hardware products. IndigoVision Limited owns 100% of the ordinary shares of IndigoVision Inc, a company incorporated in the USA. Its principal activity is the marketing of the Group's software and hardware products.

### 12 Stocks

	<b>Group</b>	
	<b>2007 £000</b>	2006 £000
Components	<b>392</b>	15
Finished goods and goods for resale	<b>1,141</b>	383
	<b>1,533</b>	398

### 13 Debtors

	<b>Group</b>		<b>Company</b>	
	<b>2007 £000</b>	2006 £000	<b>2007 £000</b>	2006 £000
Trade debtors	<b>3,740</b>	1,684	-	-
Other debtors	<b>358</b>	293	-	-
Amounts owed by subsidiary undertaking	-	-	<b>1,023</b>	140
Prepayments and accrued income	<b>113</b>	128	-	-
	<b>4,211</b>	2,105	<b>1,023</b>	140

## Notes (continued)

### 14 Deferred Tax Asset

	2007 £000	2006 £000
<b>Group</b>		
At beginning of year	-	-
Deferred tax asset recognised during year (note 8)	2,000	-
	<u>2,000</u>	<u>-</u>
<b>At end of year</b>	<u>2,000</u>	<u>-</u>

The deferred tax asset is analysed as follows:

	2007		2006	
	Recognised £000	Unrecognised £000	Recognised £000	Unrecognised £000
Depreciation in excess of capital allowances	-	130	-	165
Accumulated tax losses - UK	2,000	4,800	-	7,200
Accumulated tax losses – Non UK	-	480	-	510
	<u>2,000</u>	<u>5,410</u>	<u>-</u>	<u>7,875</u>
<b>Total</b>	<u>2,000</u>	<u>5,410</u>	<u>-</u>	<u>7,875</u>

### 15 Creditors: amounts falling due within one year

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade creditors	1,676	851	-	-
Taxation and social security	124	65	-	-
Other creditors	27	499	-	-
Accruals and deferred income	636	16	-	-
	<u>2,463</u>	<u>1,431</u>	<u>-</u>	<u>-</u>

### 16 Financial instruments

The Group's financial instruments comprise cash short term deposits and liquid resources, and various items such as trade debtors and trade creditors that arise directly from the Group's operations.

The main purpose of the financial instruments is to finance the Group's operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are foreign currency risk and interest rate risk.

The Group's principal exposure to foreign currency risk arises on conversion of foreign currency denominated purchases and sales revenue to sterling. The exposure is reviewed periodically to minimise the risk of exchange movements having a material impact on operating profit. The balance sheet exposure is not significant to the overall consolidated net asset position but the position is monitored with a view to matching non-sterling assets and liabilities.

The cash and deposits attract interest at floating rates. The exposure to interest rate risk is reviewed periodically to minimise interest payable and maximise interest receivable.

Short term debtors and creditors have been excluded from the following disclosures.

**Notes** (continued)

**16 Financial instruments** (continued)

The Group's net funds and interest rate profile by currency as at 31 July 2007 were:

	<b>2007</b> <b>£000</b>	2006 £000
Sterling cash and deposits	7	1,435
US Dollar cash balances	170	19
Euro cash balances	2	-
	<hr/>	<hr/>
Cash and deposits	<b>179</b>	1,454
	<hr/>	<hr/>
Financial assets	<b>179</b>	1,454
	<hr/> <hr/>	<hr/> <hr/>

There is no material difference between the book and fair values of short-term investments.

**17 Provision for liabilities and charges**

	<b>2007</b> <b>£000</b>	2006 £000
<b>Group</b>		
At beginning of year	<b>90</b>	75
Amounts provided during year	<b>228</b>	100
Utilised during the year	<b>(168)</b>	(85)
	<hr/>	<hr/>
<b>At end of year</b>	<b>150</b>	90
	<hr/> <hr/>	<hr/> <hr/>

The provision relates to possible claims on products sold in the two year warranty period. Management assesses the quantum of the provision by reference to new product introductions and its analysis of actual goods returned to the group.

**18 Called up share capital**

	<b>2007</b> <b>£000</b>	2006 £000
<b>Group and Company</b>		
<b>Authorised</b>		
Equity: Ordinary shares of 1p each	<b>14,922</b>	14,922
	<hr/>	<hr/>
<b>Allotted, called up and fully paid</b>		
Equity: 7,082,176 Ordinary shares of 1p each (2006: 6,927,976)	<b>71</b>	69
	<hr/>	<hr/>
	<b>71</b>	69
	<hr/> <hr/>	<hr/> <hr/>

During the year 154,200 ordinary shares of 1p each were issued. 47,000 at 35p per share, 41,000 at 36p per share, 3,200 at 130p per share, 43,000 at 56.5p per share and 20,000 at 63.5p per share pursuant to the exercise of options.

## Notes (continued)

### 19 Share options

#### Share based payments

The group has the following share based payment plans in operation during the period:

##### The Approved Share Option Scheme

Under this plan the remuneration committee may grant eligible employees in the United Kingdom share options under the terms and conditions of HM Revenue & Customs approved share option plans. The scheme is open to all employees in the United Kingdom.

##### The Unapproved Share Option Scheme

Under this plan the remuneration committee may grant eligible employees in the United Kingdom share options that exceed the value limit of the HM Revenue and Customers approved share option plan. Options granted under this scheme may be exercised between 3 and 10 years from the grant date. The scheme is open to all employees in the United Kingdom.

##### The Stock Option/ Stock Issuance Plan

This plan is intended to promote the interests of the group by giving incentives to eligible officers, employees and other consultants or advisors to the company based in the United States of America. The remuneration committee has sole discretion to grant options and determine in each case the terms and conditions that apply to each agreement.

##### Stand-Alone Option Agreement

The remuneration committee has sole discretion to grant share options through stand alone option agreements to sales agents or other consultants or advisors to the company. The remuneration committee can determine the terms and conditions that apply to each agreement.

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments originally granted	Vesting conditions	Contractual life of options
<b>The Approved Share Option Plan:</b>			
16 June 2000	16,000	3 years from date of grant	10 years
19 December 2001	55,000	3 years from date of grant	10 years
30 July 2003	316,428	3 years from date of grant	10 years
19 December 2003	44,000	3 years from date of grant	10 years
23 April 2004	91,796	3 years from date of grant	10 years
3 May 2004	20,000	3 years from date of grant	10 years
12 November 2004	66,500	3 years from date of grant	10 years
1 November 2005	99,727	3 years from date of grant	10 years
16 March 2006	30,140	3 years from date of grant	10 years
25 October 2006	35,000	3 years from date of grant	10 years
16 April 2007	30,973	3 years from date of grant	10 years
<b>The Unapproved Share Option Plan:</b>			
30 July 2003	35,572	3 years from date of grant	10 years
23 April 2004	54,704	3 years from date of grant	10 years
12 November 2004	99,000	3 years from date of grant	10 years
1 November 2005	150,273	3 years from date of grant	10 years
16 March 2006	7,860	3 years from date of grant	10 years
25 October 2006	1,000	3 years from date of grant	10 years
16 April 2007	34,027	3 years from date of grant	10 years
<b>The Stock Option/Issuance Plan</b>			
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	4,000	Individually determined	10 years
1 November 2005	7,000	Individually determined	10 years
16 June 2006	5,000	Individually determined	10 years
25 October 2006	1,500	Individually determined	10 years
16 April 2007	3,000	Individually determined	10 years

## Notes (continued)

### 19 Share options (continued)

#### The Stand-Alone Option Agreements:

30 July 2003	2,000	Individually determined	10 years
19 December 2003	4,000	Individually determined	10 years
23 April 2004	6,000	Individually determined	10 years
12 November 2004	15,000	Individually determined	10 years
1 November 2005	18,000	Individually determined	10 years
16 June 2006	25,000	Individually determined	10 years
25 October 2006	30,500	Individually determined	10 years
16 April 2007	13,000	Individually determined	10 years

The number and weighted average exercise prices of share options are as follows:

	2007 Weighted average exercise price, £	2007 Number of options originally granted	2006 Weighted average exercise price, £	2006 Number of options
<b>The Approved Share Option Plan</b>				
Outstanding at the beginning of the year	1.13	466,577	0.57	362,710
Granted during the year	6.64	55,973	2.64	129,867
Forfeited during the year	3.71	(32,700)	0.35	(22,000)
Exercised during the year	0.47	(149,996)	0.94	(4,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	2.08	339,854	1.13	466,577
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>The Unapproved Share Option Plan</b>				
Outstanding at the beginning of the year	1.31	329,623	0.59	171,490
Granted during the year	7.03	64,527	2.09	158,133
Forfeited during the year	-	-	-	-
Exercised during the year	0.57	(4,204)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	2.27	389,946	1.31	329,623
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>The Stock Option/ Stock Issuance Plan</b>				
Outstanding at the beginning of the year	2.53	15,000	0.65	3,000
Granted during the year	7.38	4,500	3.01	12,000
Forfeited during the year	1.95	(4,000)	-	-
Exercised during the year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	4.09	15,500	2.53	15,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>The Stand Alone Option Agreements</b>				
Outstanding at the beginning of the year	2.39	67,000	0.58	25,000
Granted during the year	8.05	14,000	3.42	43,000
Forfeited during the year	3.76	(7,000)	1.95	(1,000)
Exercised during the year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	3.33	74,000	2.39	67,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The weighted average share price at the date of exercise of share options exercised during the period was £7.67 (2006 : £5.45).

## Notes (continued)

### 19 Share options (continued)

The options outstanding at the year end have an exercise price in the range of £0.35 to £8.23 and a weighted average contractual life of 10 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model. The model has used an expected life of options of 3.5 years, a risk free rate range of between 3.7% and 5.25% and a historic share price volatility at the date of grant range of between 53.7% and 72.1%.

The total expenses recognised for the period arising from share based payments was £209,000 (2006: £116,000).

### 20 Share premium and reserves

<b>Group</b>	<b>Share premium account</b> £000	<b>Other reserve</b> £000	<b>Profit and loss account</b> £000
At beginning of year	23,974	8,562	(29,929)
Retained profit for the year	-	-	2,737
Premium on share capital	71	-	-
Share based payments	-	-	209
	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>24,045</b>	<b>8,562</b>	<b>(26,983)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The other reserve represents the share premium balance in the subsidiary undertaking, IndigoVison Limited, and is non-distributable.

<b>Company</b>	<b>Share premium account</b> £000	<b>Profit and loss account</b> (Restated – note 1) £000
At beginning of year	23,974	(22,694)
Retained loss for the year	-	(40)
Premium on share capital	71	-
Share based payments	-	209
	<hr/>	<hr/>
<b>At end of year</b>	<b>24,045</b>	<b>(22,525)</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 21 Commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	2007	Other	2006	Other
	Land and buildings £000	£000	Land and Buildings £000	£000
Operating leases which expire:				
Within one year	-	-	-	2
In the second to fifth years inclusive	6	3	-	-
Over five years	163	-	183	-
	<u>169</u>	<u>3</u>	<u>183</u>	<u>2</u>

### 22 Pension scheme

The Group operates defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £100,038 (2006: £88,522).

Contributions amounting to £12,778 (2006: £10,256) were payable to the schemes and are included in creditors.

### 23 Reconciliation of operating profit to operating cash flows

	2007 £000	2006 £000 (Restated – note 1)
Operating profit	650	359
Depreciation	130	61
(Increase) in stocks	(1,135)	(45)
(Increase) in debtors	(2,040)	(675)
Increase in creditors	1,033	581
Foreign exchange (loss) / profit	(1)	(78)
Movement in warranty provisions	60	15
Charge in respect of share based payment	209	116
	<u>          </u>	<u>          </u>
<b>Net cash (outflow)/ inflow from operating activities</b>	<b>(1,094)</b>	<b>334</b>
	<u>          </u>	<u>          </u>

**Notes** (continued)

**24 Analysis of cash flows**

	<b>2007</b> <b>£000</b>	2006 £000
<b>Returns on investment and servicing of finance</b>		
Interest received	<b>21</b>	44
Interest paid	-	-
	<u>21</u>	<u>44</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	<b>275</b>	(144)
	<u>275</u>	<u>(144)</u>
<b>Financing</b>		
Issue of share capital	<b>73</b>	1
	<u>73</u>	<u>1</u>

**25 Analysis of net funds**

	At beginning of year £000	Cash flow £000	At end of year £000
Cash in hand, at bank	1,454	(1,275)	<b>179</b>
<b>Total</b>	<u>1,454</u>	<u>(1,275)</u>	<u><b>179</b></u>

## Secretary and advisors

Secretary and Registered Office	The Company Secretary Charles Darwin Building The Edinburgh Technopole Bush Loan Edinburgh EH26 0PJ
Nominated Advisor and Stock Brokers	Brewin Dolphin Securities Ltd 48 St Vincent Street Glasgow G2 5TS
Auditors	KPMG Audit Plc Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Solicitors	Shepherd & Wedderburn Saltire Court 20 Castle Terrace Edinburgh EH1 2ET
Bankers	Royal Bank of Scotland 36 St.Andrews Square Edinburgh EH2 2YB
Registrars	Computershare Services PLC 7 <sup>th</sup> Floor, Jupiter House Triton Court 14 Finsbury Square London EC2A 1BR